

Washington State Economic & Revenue Outlook

Presented to
Washington Municipal Treasurer's Association

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April 15, 2010
Chelan, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



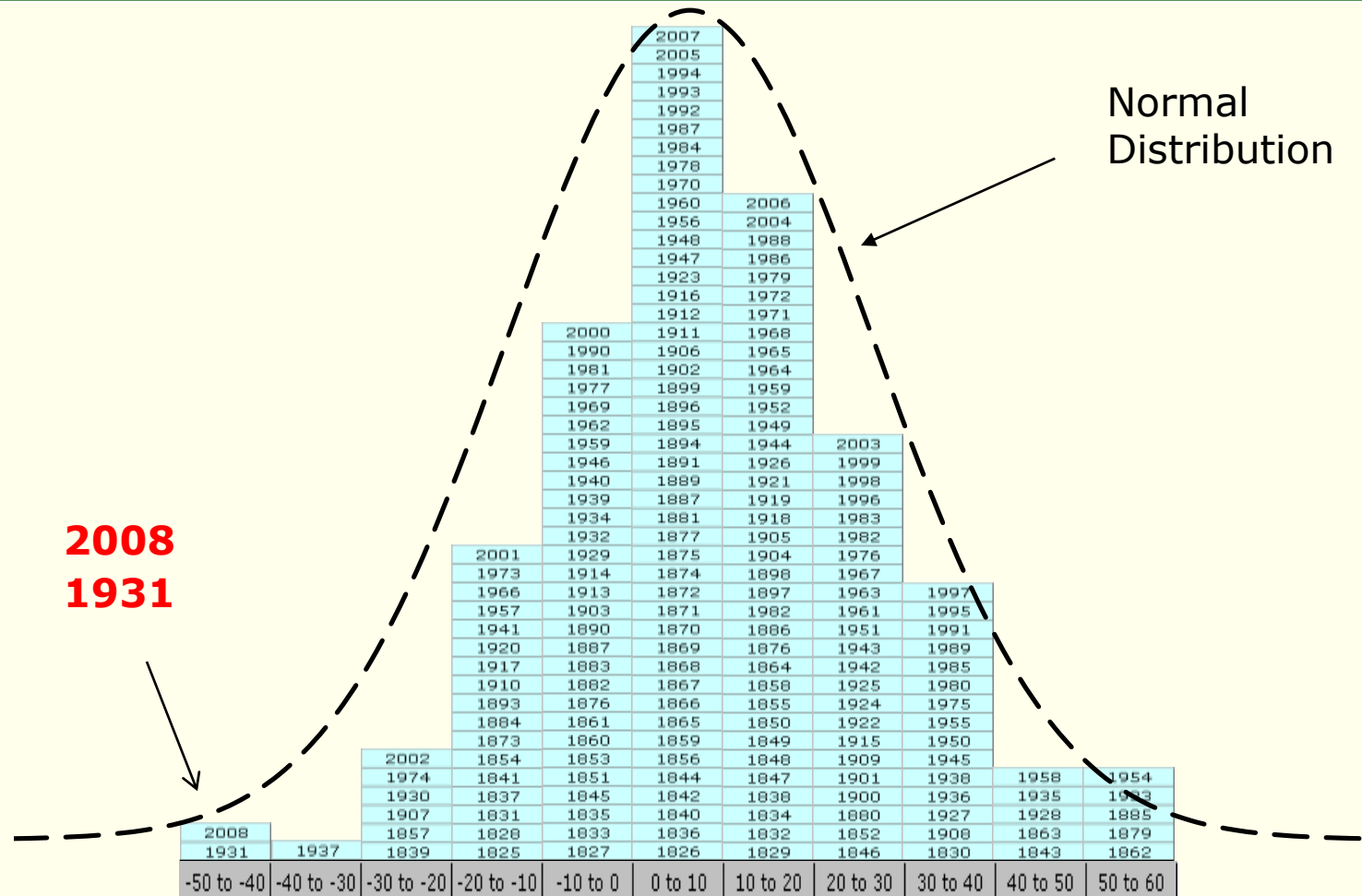
Summary

- We are coming out of the “Great Recession”
 - The economy will gain traction by mid-year
 - The recovery in revenues is underway, but progress will be slow
- The economic recovery faces headwinds
 - Real estate, especially commercial
 - Banking, particularly local and regional banks
- The revenue recovery too faces headwinds
 - Slow job growth
 - Tentative consumer confidence
- Upside
 - Exports
 - Stable aerospace and software publishing



Equity returns in 2008 were a tail event

**U.S. Stock
Market
Total
Returns
1825 - 2008**



Source: AXA

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At this stage in 1981-82, employment had started to recover

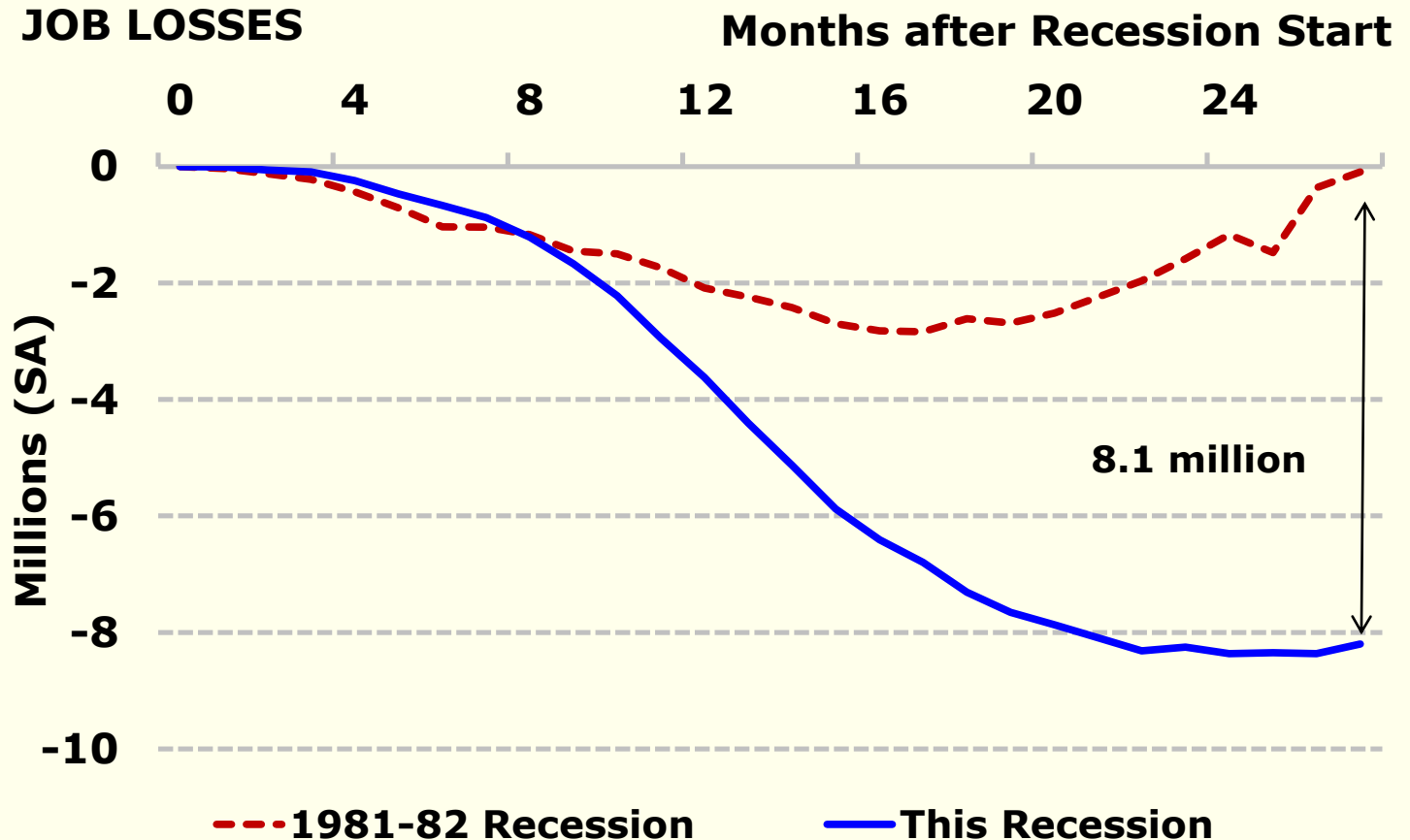
Peak to
trough job
losses

1981-82:

2.6% of
labor force

This time:

5.5% of
labor force



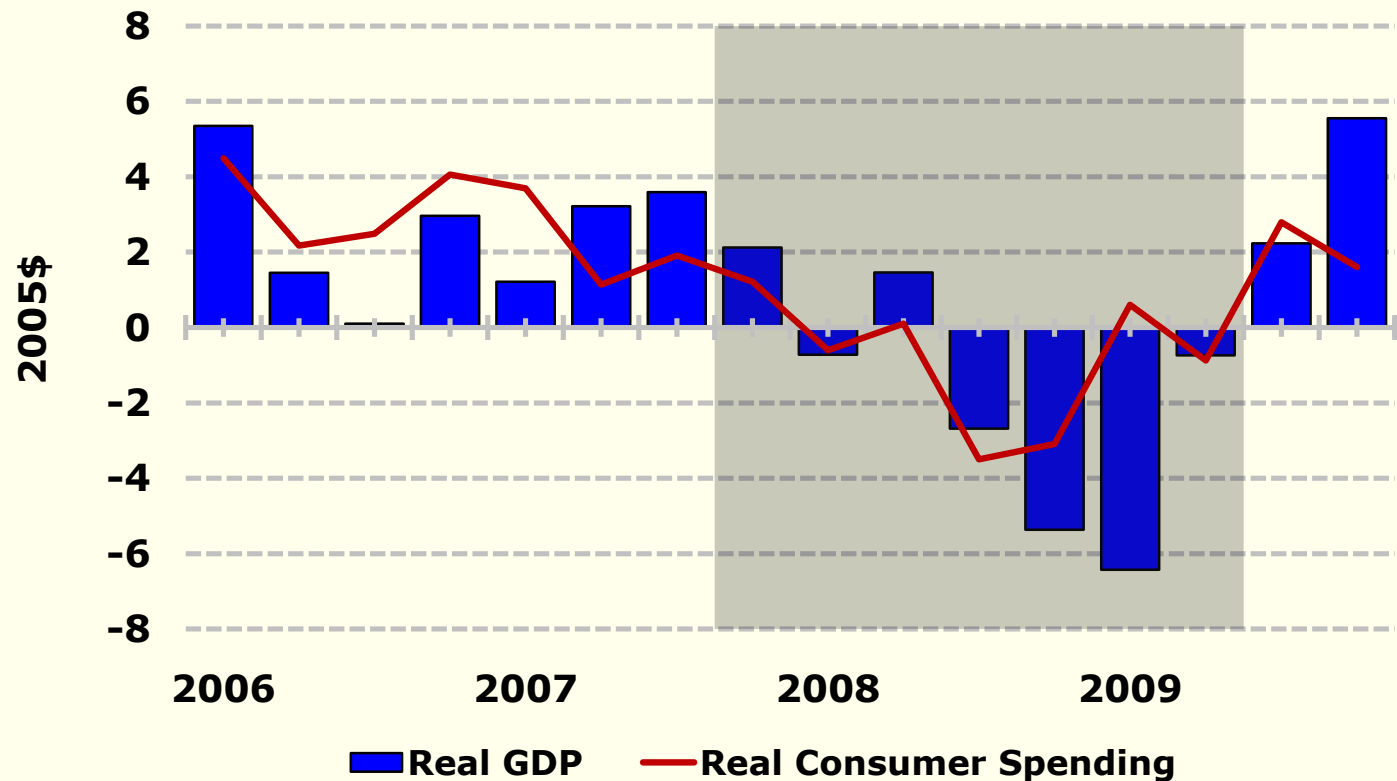
Source: BLS, ERFC; data through March 2010

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GDP returned to growth in Q3

Percent growth, SAAR

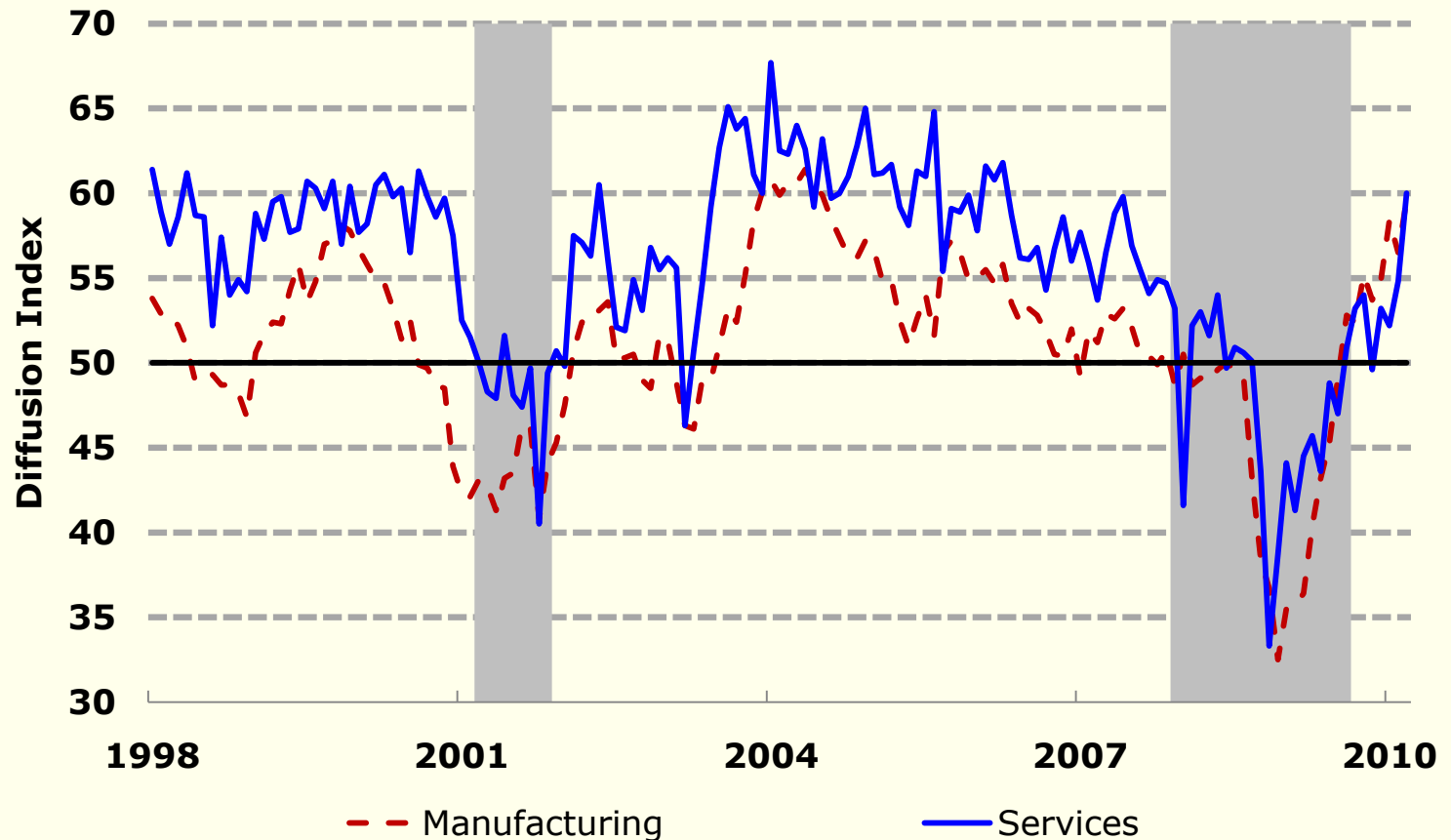


Source: BEA, data through 2009 Q4



ISM indices for both services and manufacturing indicate growth

An index greater than 50, implies growth



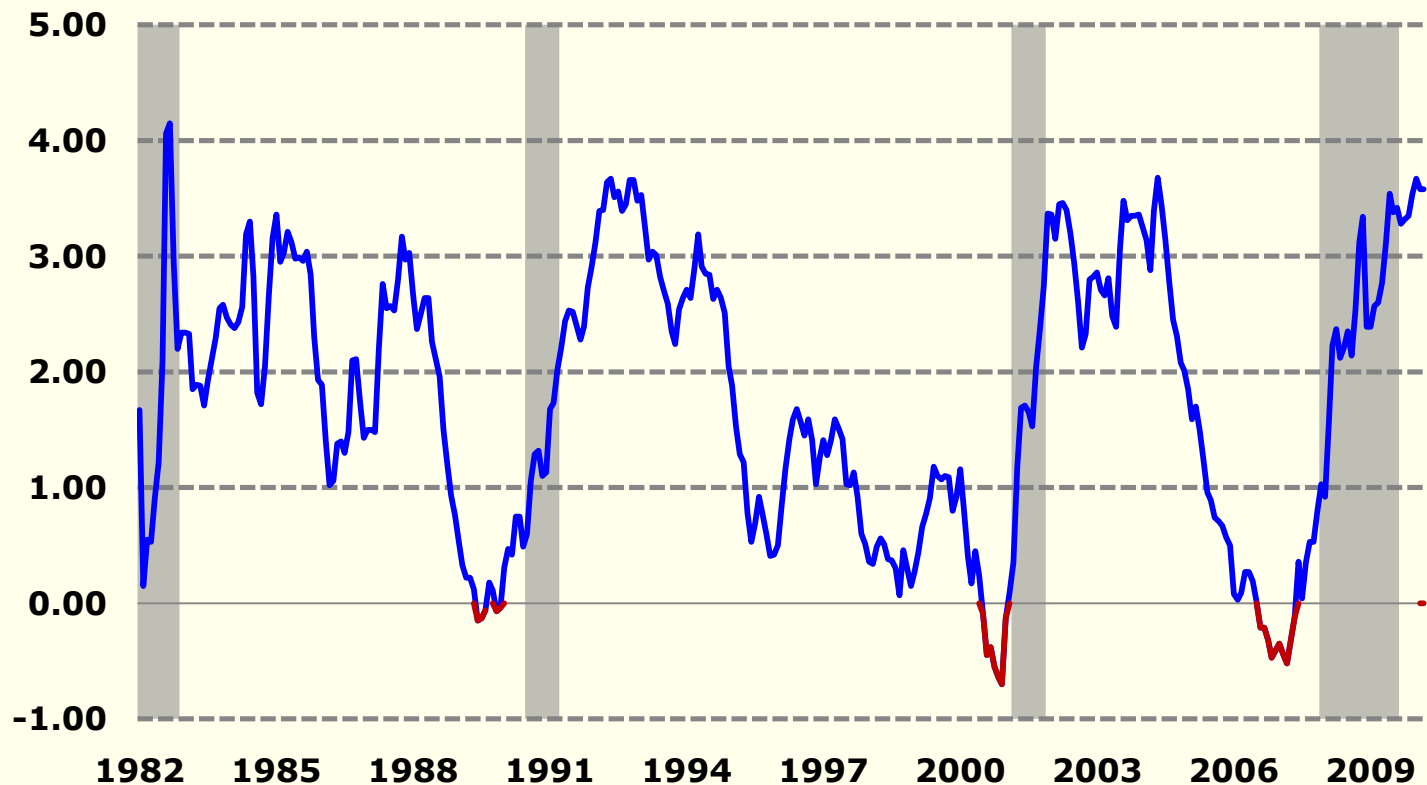
Source: Institute of Supply Management; data through March 2010



Increasing yield curve spread points to growth

An inverted yield curve typically precedes a recession while a steepening yield curve signifies a recovery

Yield Curve Spread 10-Year minus 3-Month U.S. Treasuries



Source: Federal Reserve Board, ERFC; data through March 2010

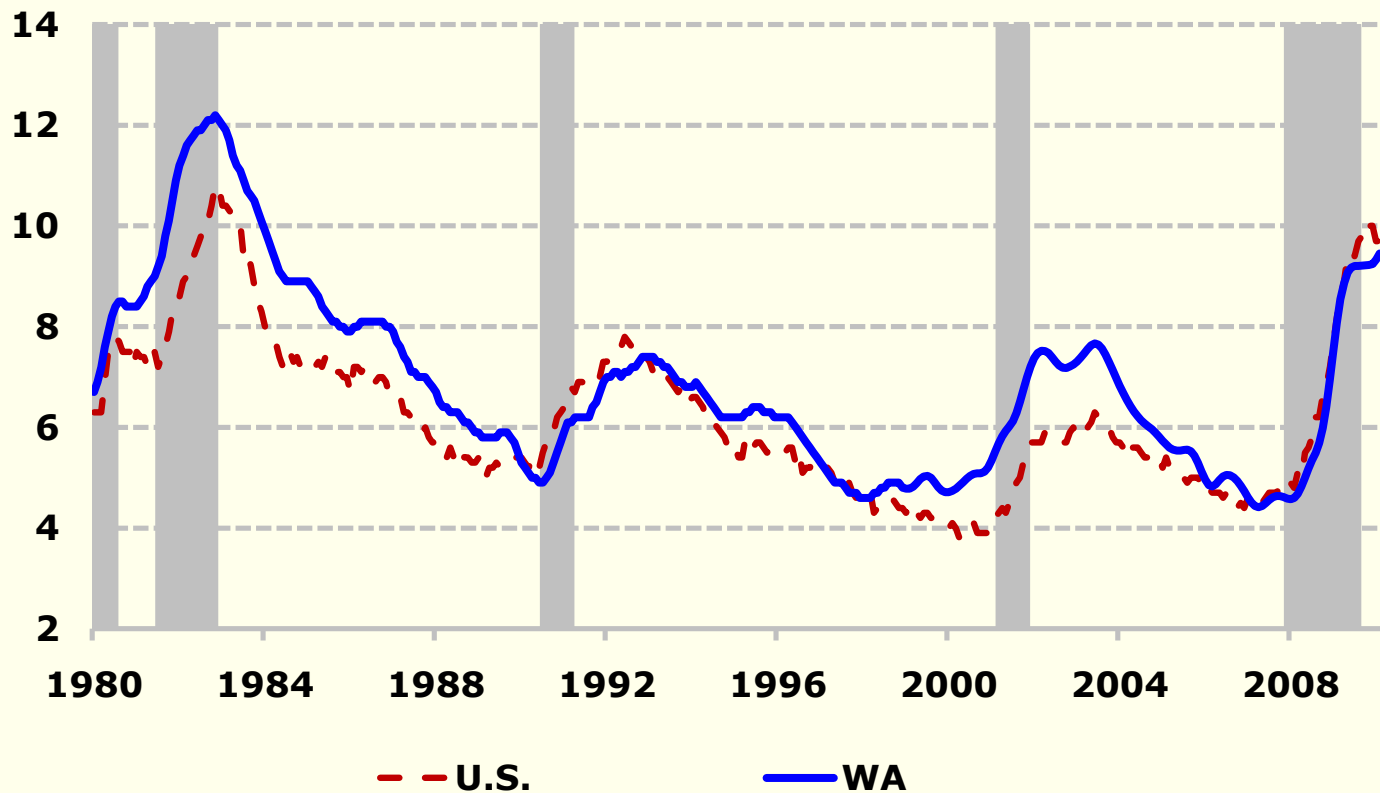
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Unemployment is still high

It is normal for this rate to continue to rise even after the economy is in recovery

Unemployment Rate, Percent, SA



Source: WA ESD, BLS; data through March 2010

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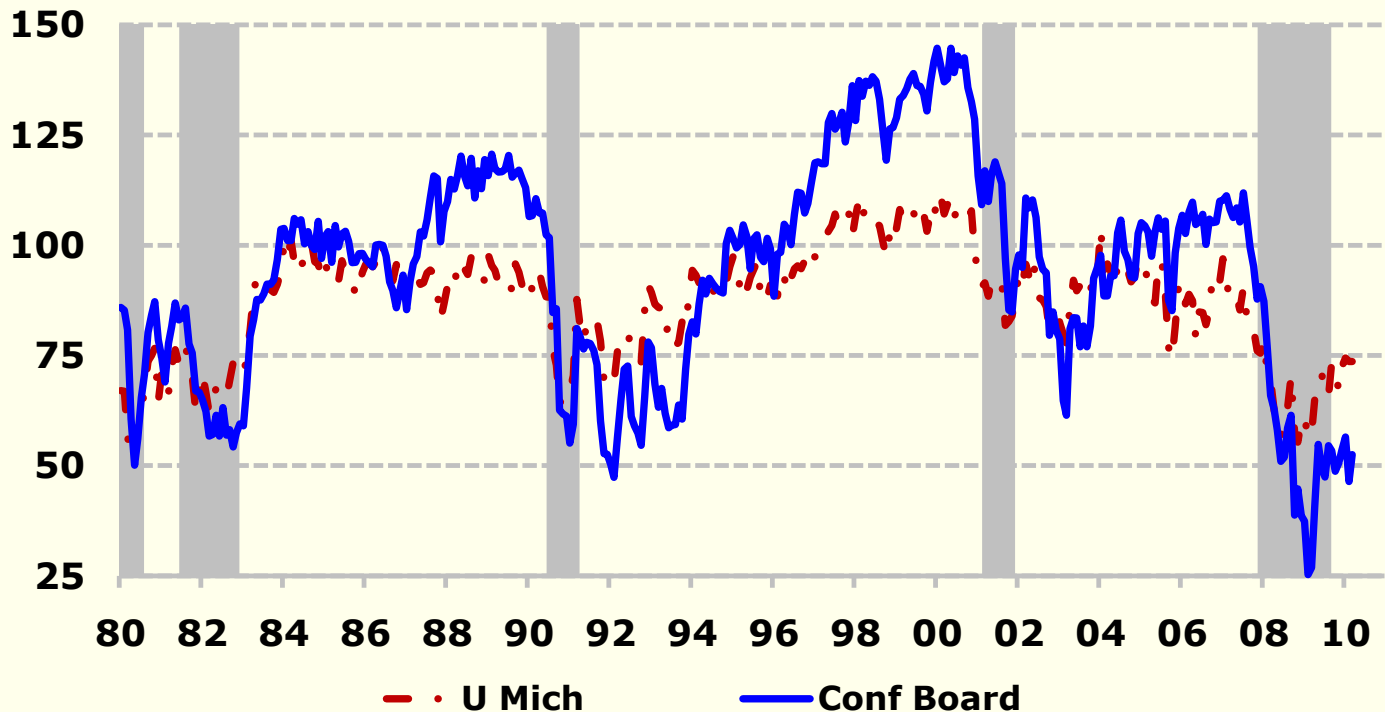


Consumer confidence is treading water

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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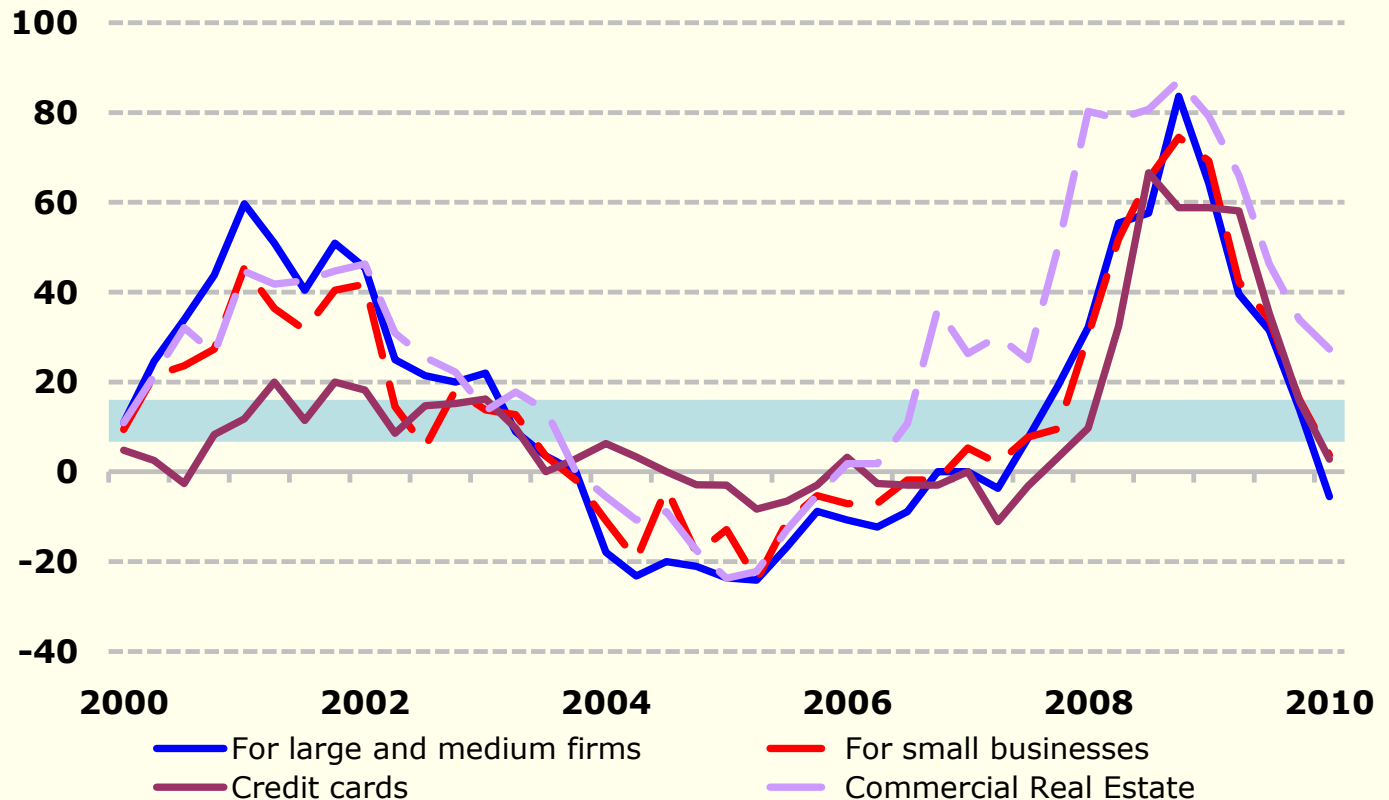
Source: University of Michigan; Conference Board, data through March 2010



Bank lending appears to be easing, but not for commercial real estate

Survey includes 60 large domestic banks and 24 U.S. branches of foreign banks

Net Tightening minus Easing Percent



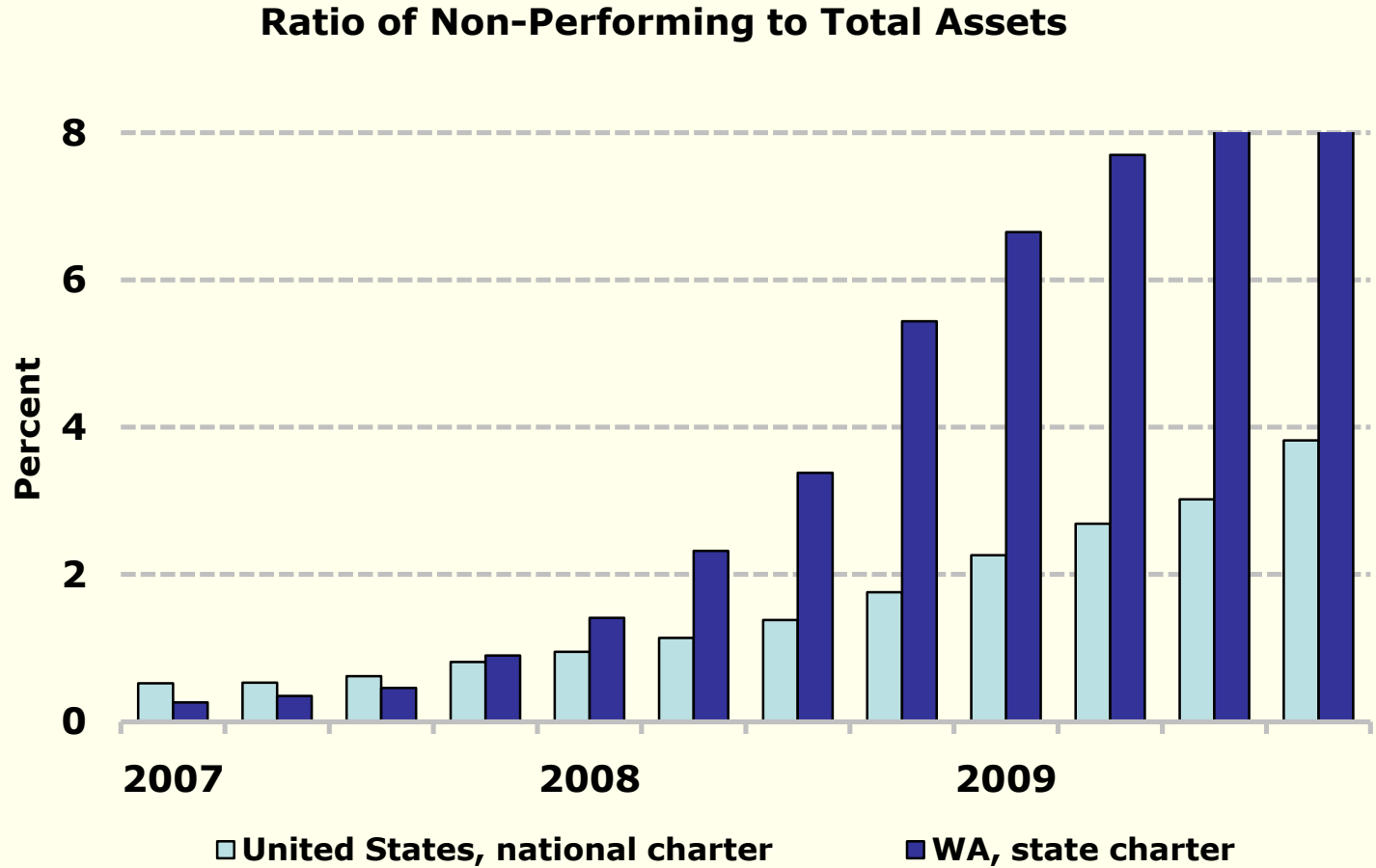
Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey; data through January 2010 survey

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Asset quality of regional banks is poorer, but leveling off

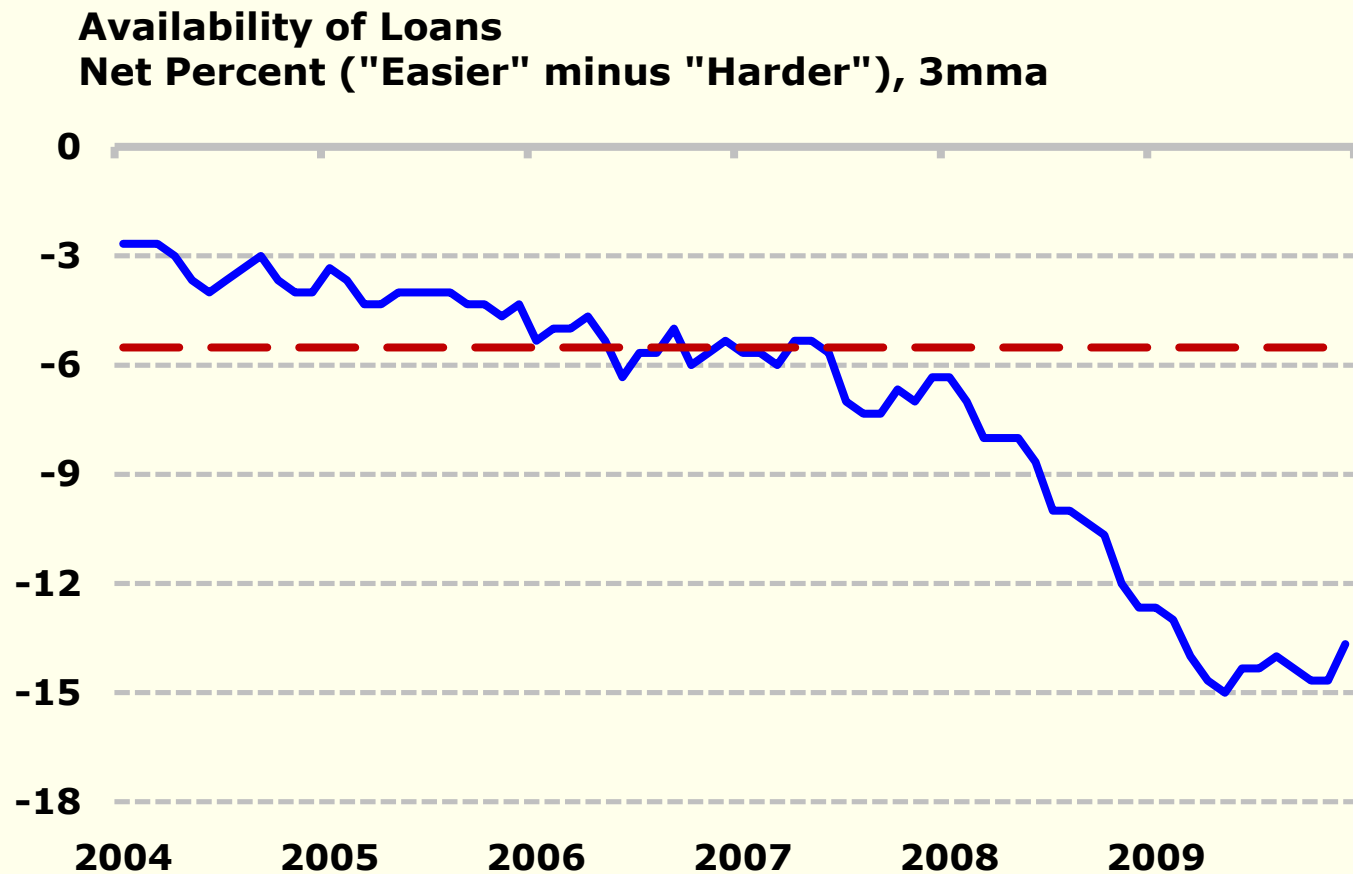
The poorer asset quality of regional banks is due to their disproportionately high exposure to commercial real estate



Source: FDIC, data through 2009 Q4



Credit conditions remain tight for small business...



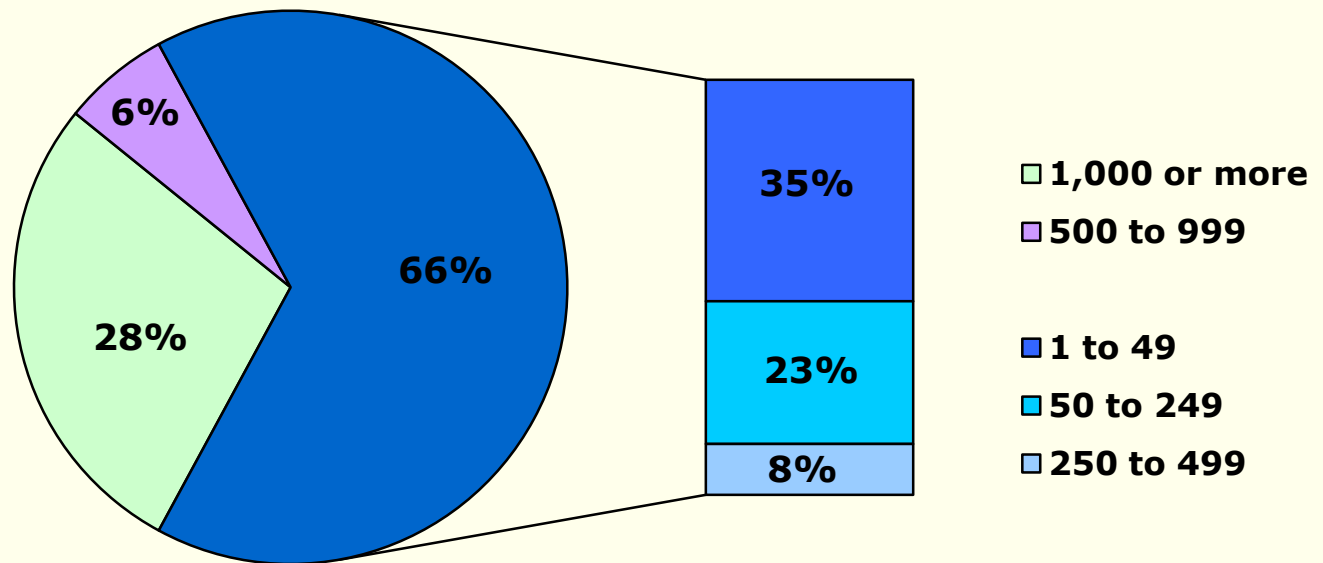
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Source: National Federation of Independent Business; data through February 2010



... who create most of the jobs

Since 1992, 66% of the net change in employment has occurred in small businesses

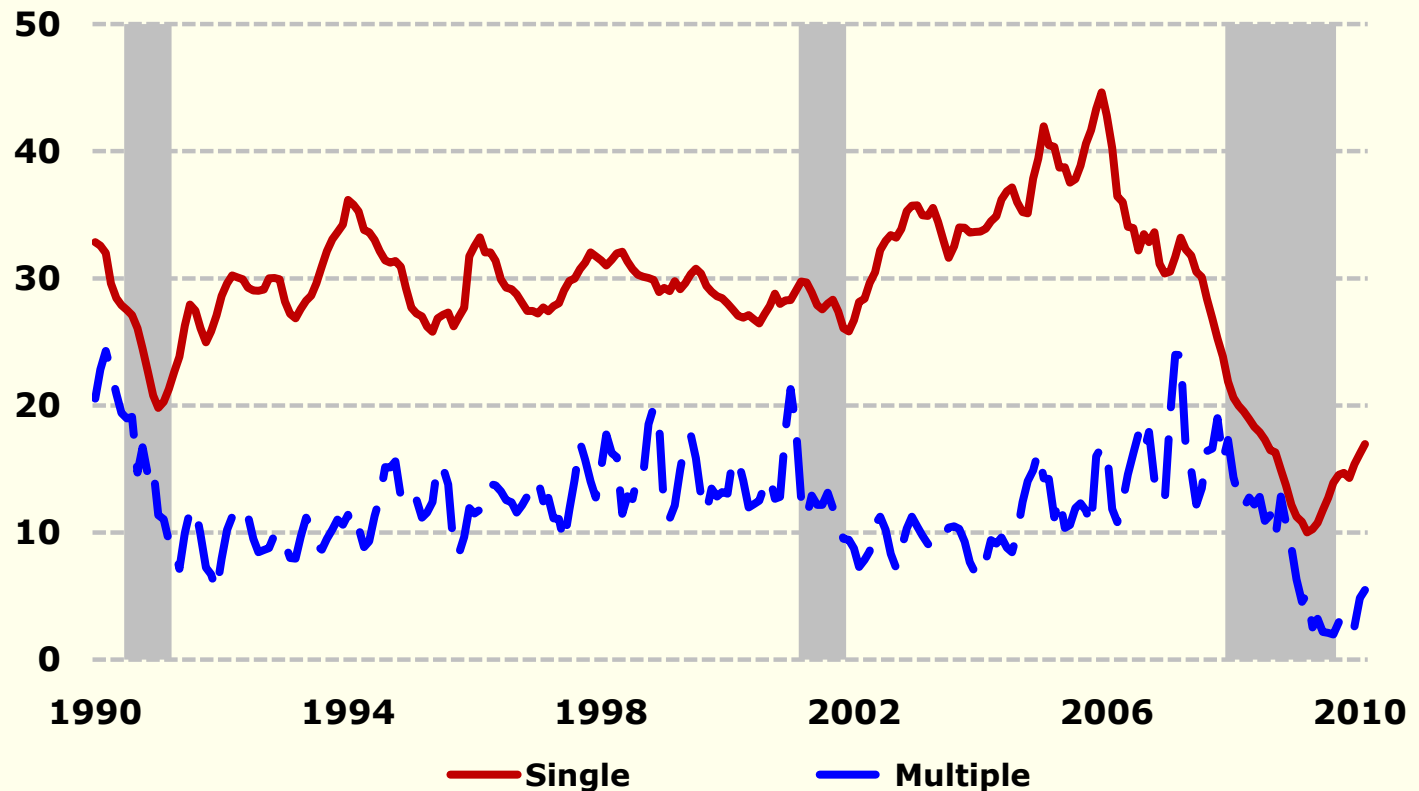


Source: BLS, data from 1992 Q3 to 2009 Q2



WA single family housing is improving, but mostly because of the first time homebuyer tax credit

Thousands, SA, 3MMA



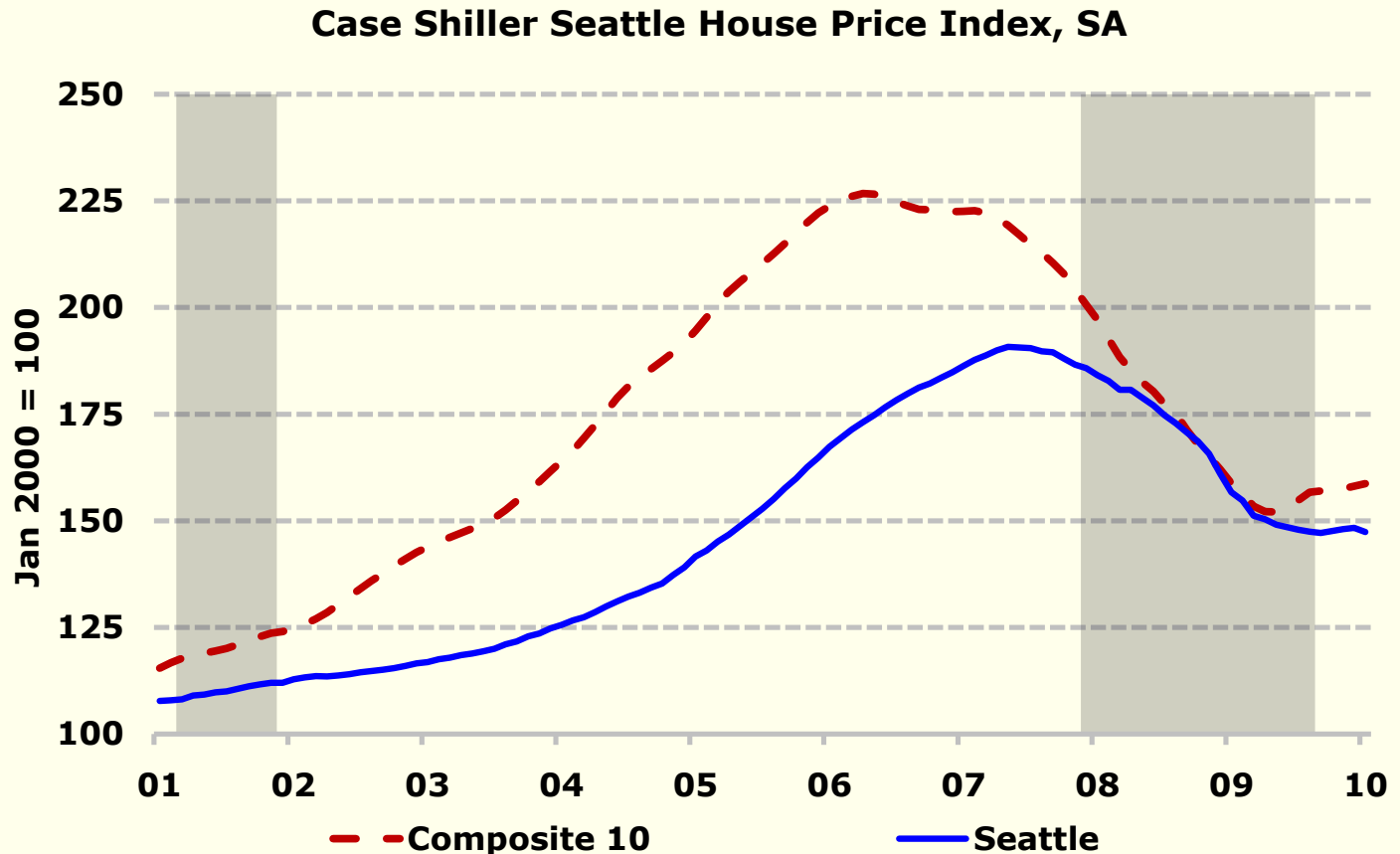
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Source: U.S. Census Bureau; data through February 2010



Home prices in Seattle appear to be leveling off, but lag the nation in the turnaround

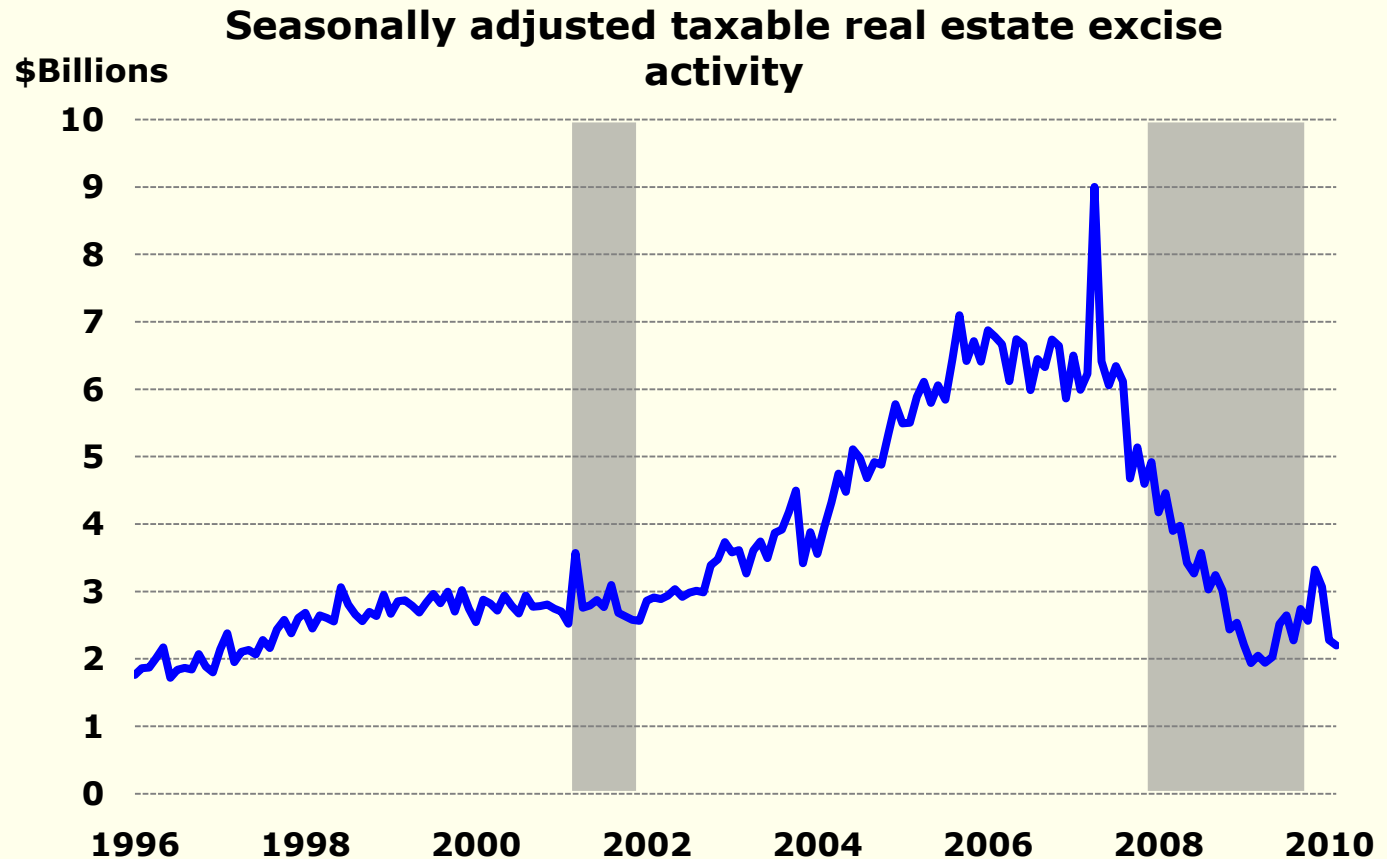
Seattle Home Prices



Source: S&P/Case-Shiller; data through January 2010



REET collections fell after first round tax credits expired

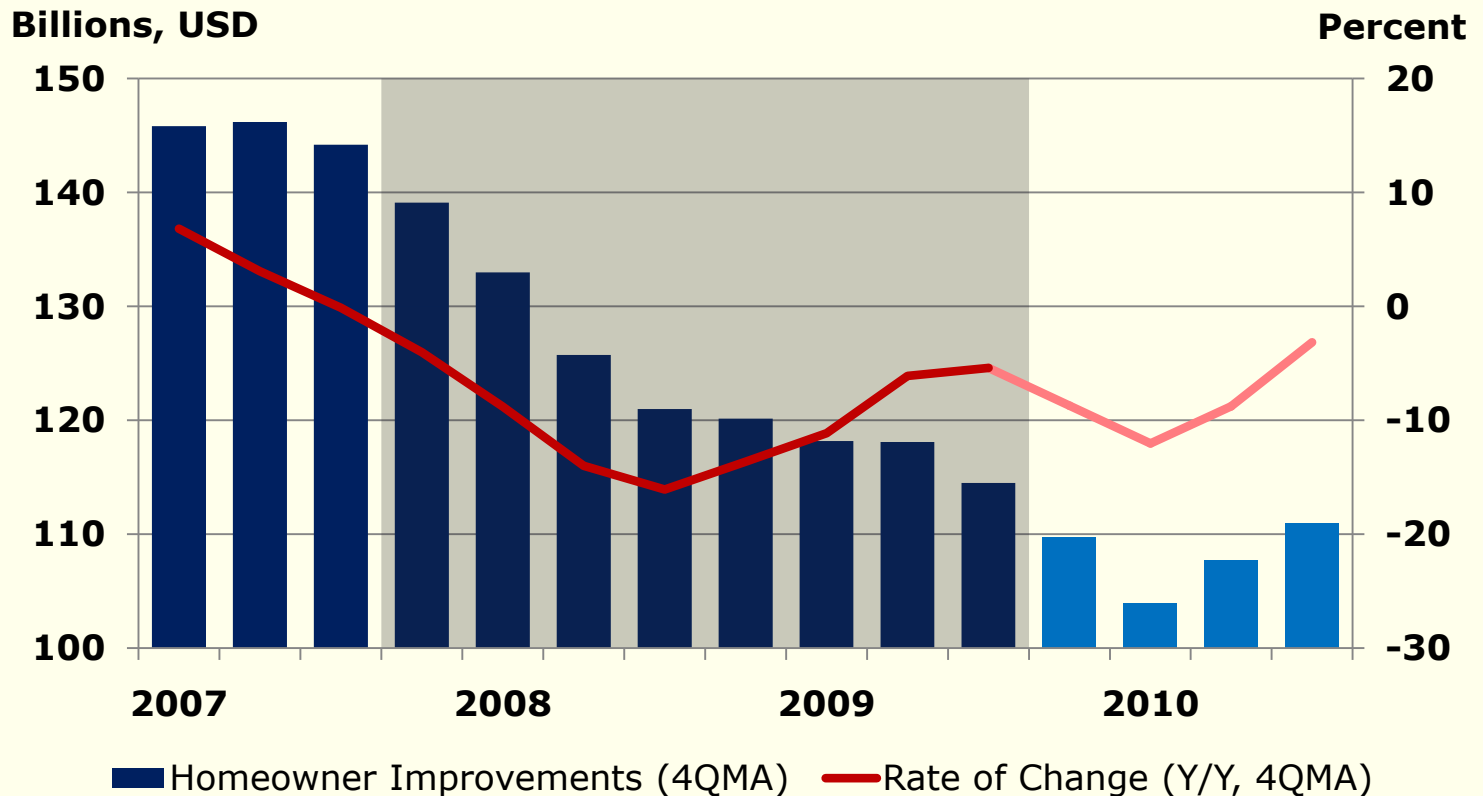


Source: ERFC; Monthly data through February 2010



Indicator suggests remodeling improvement in 2010

The Leading Indicator of Remodeling Activity (LIRA)

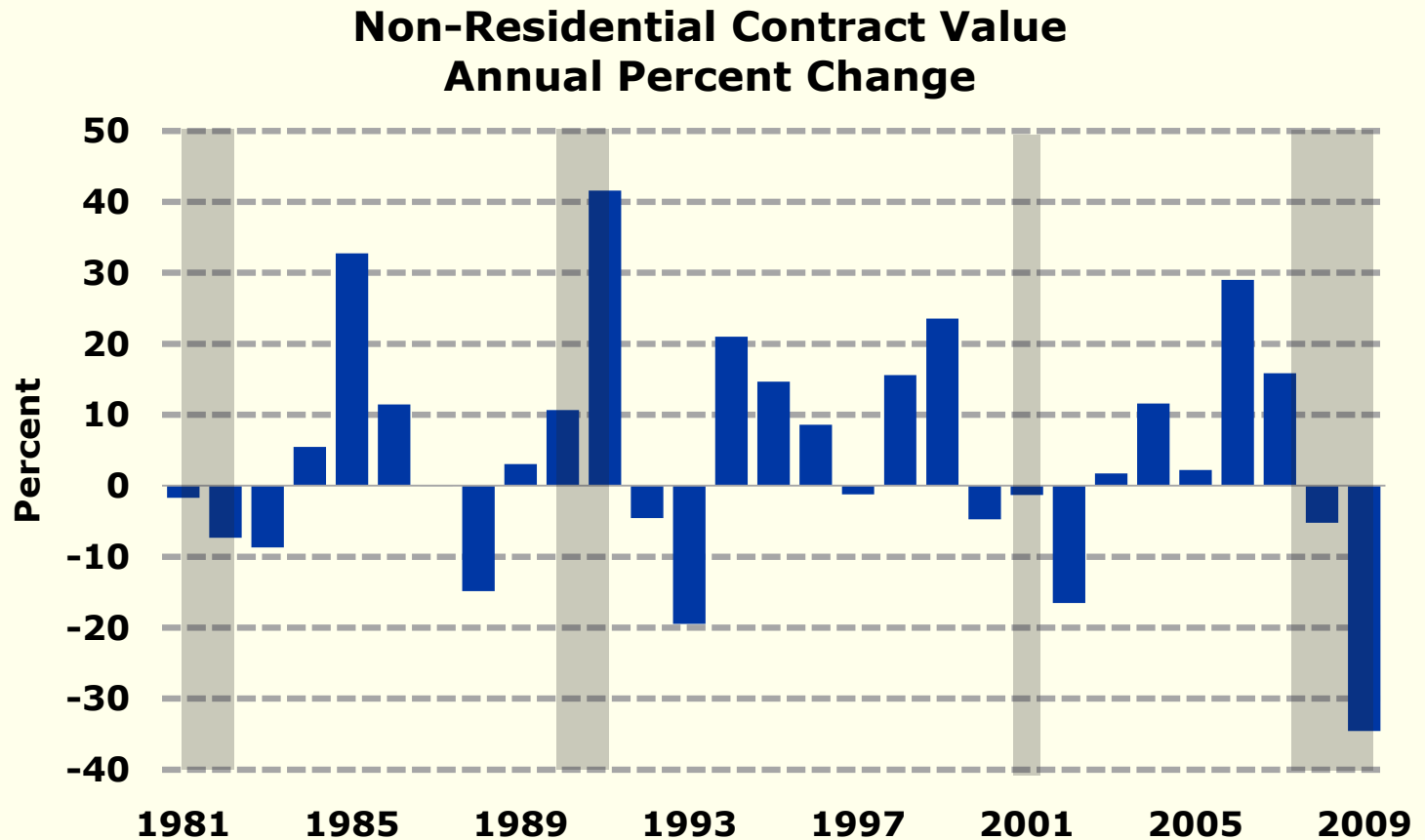


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Source: Joint Center for Housing Studies of Harvard University, actual data through 2009 Q3



This is the worst downturn in non-residential construction in 30 years



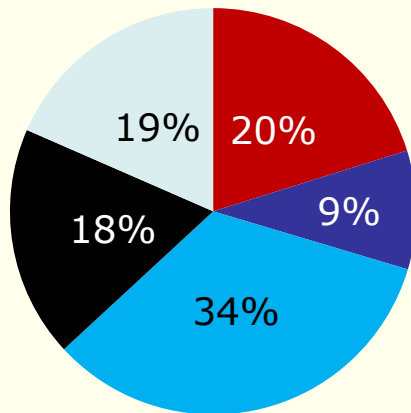
Source: McGraw-Hill Construction, data through December, 2009



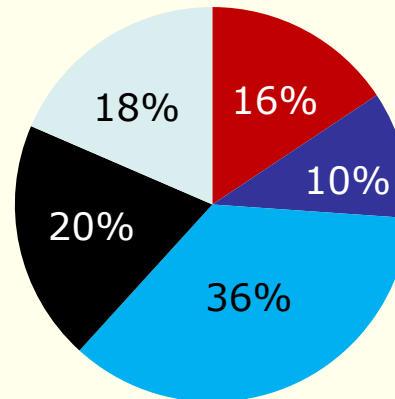
The share of construction in the Retail Sales tax base has shrunk

USD Millions

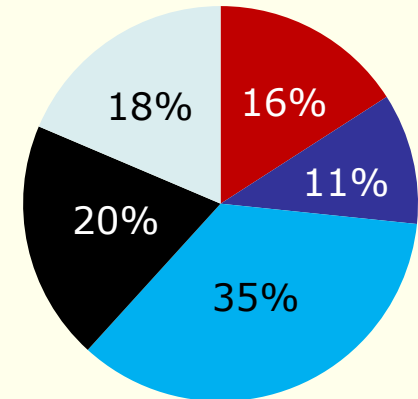
07-09 Biennium



09-11 Biennium



11-13 Biennium



■ Construction

■ Retail Trade Excluding Autos

■ Other

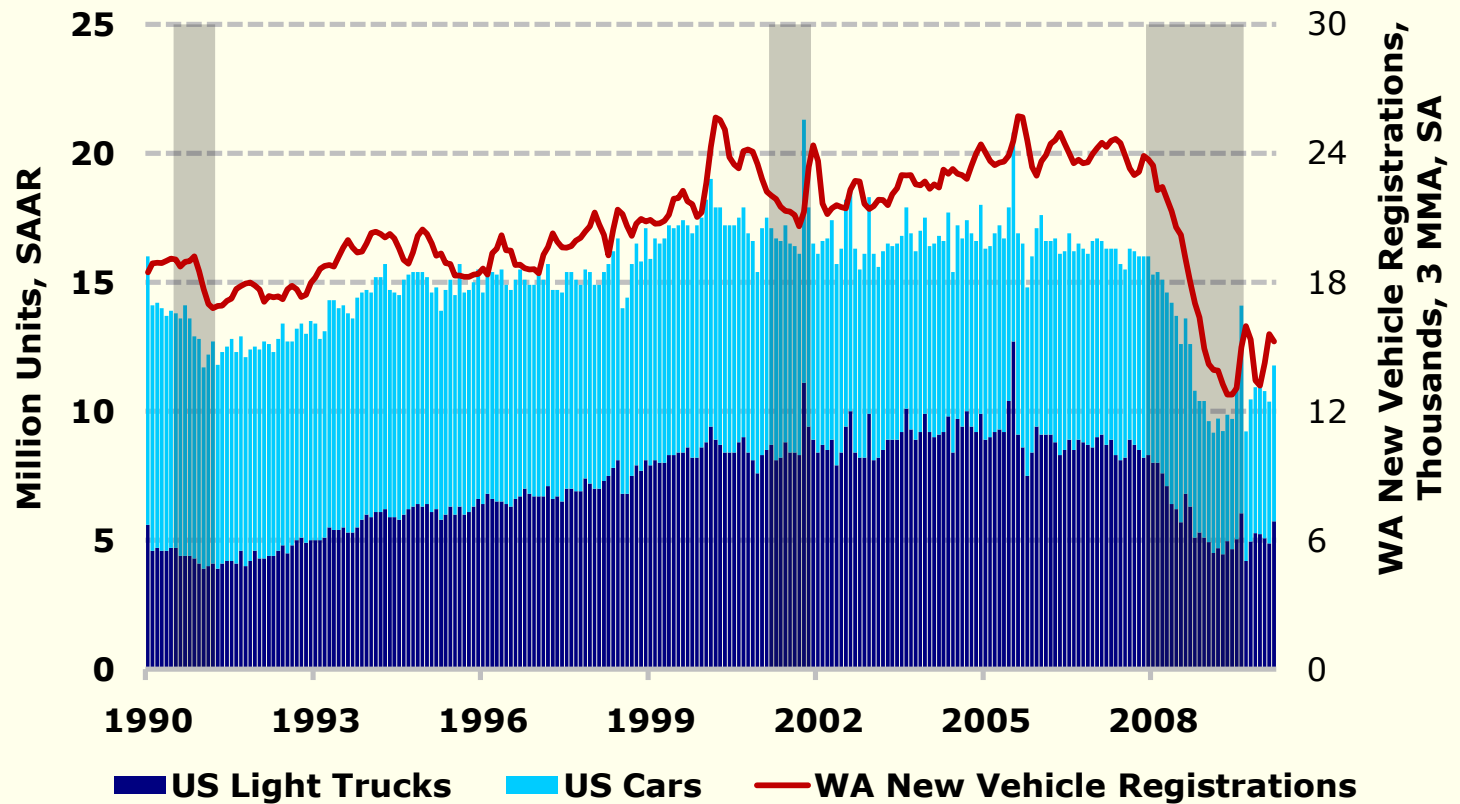
■ Motor Vehicles and Parts

■ Services



Automotive sales are improving

National car sales were 2.1 million units (ann.) higher in March 2010 than in March 2009



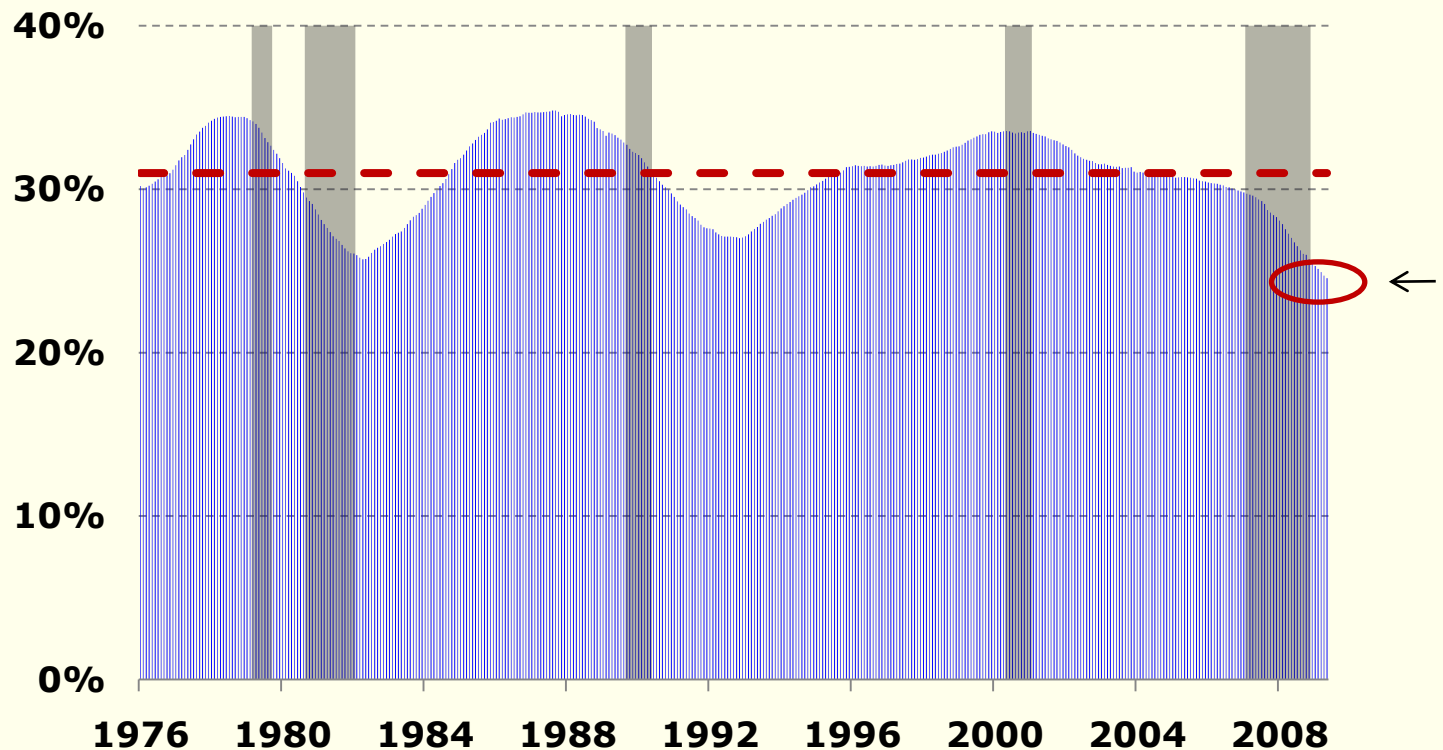
Source: Autodata Corporation, WA DOL; data through March 2010



Relative age of the car fleet indicates imminent turnaround in car sales

The percent of "old" cars on the road is at a historic high

U.S. LMV Sales: Ratio of 36/120 Months



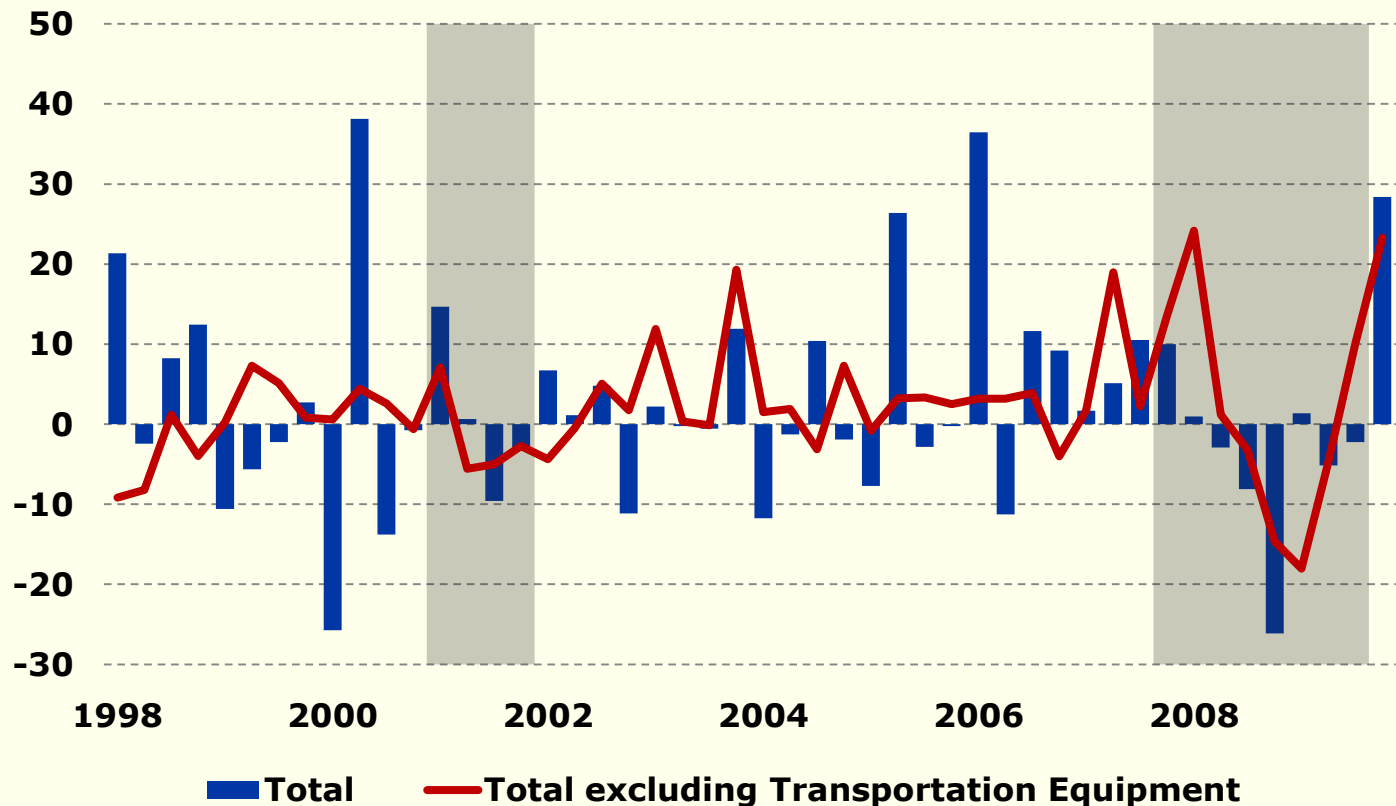
Source: Autodata Corporation, ERFC; data through March 2010



Exports will help the state recover faster than the nation

Exports excluding transport equipment were up 23% in Q4

Exports, SA
Percent Change, quarter ago

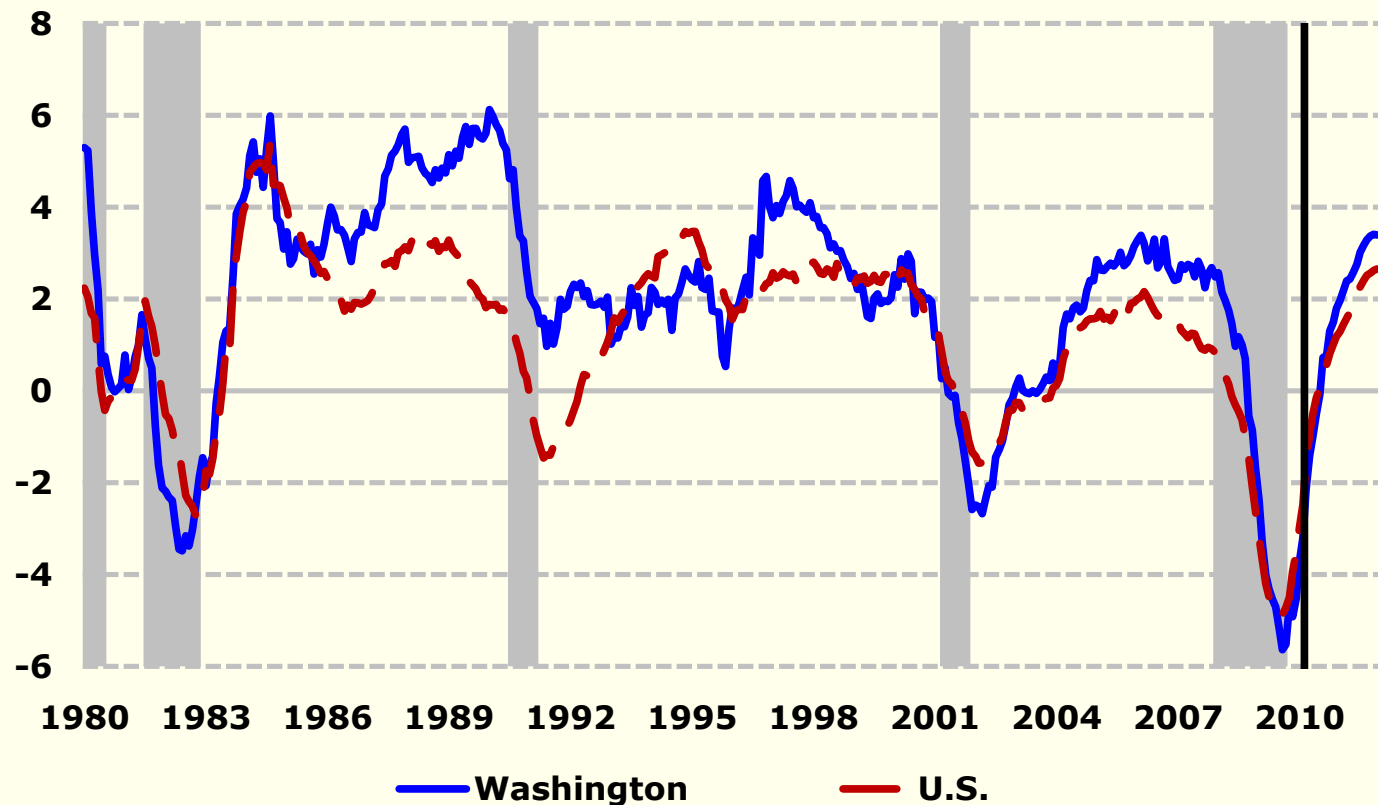


Source: Wisner Trade Data; through 2009 Q4



WA employment lagged the nation in the downturn and will recover a little stronger than the nation

Percent change, year ago

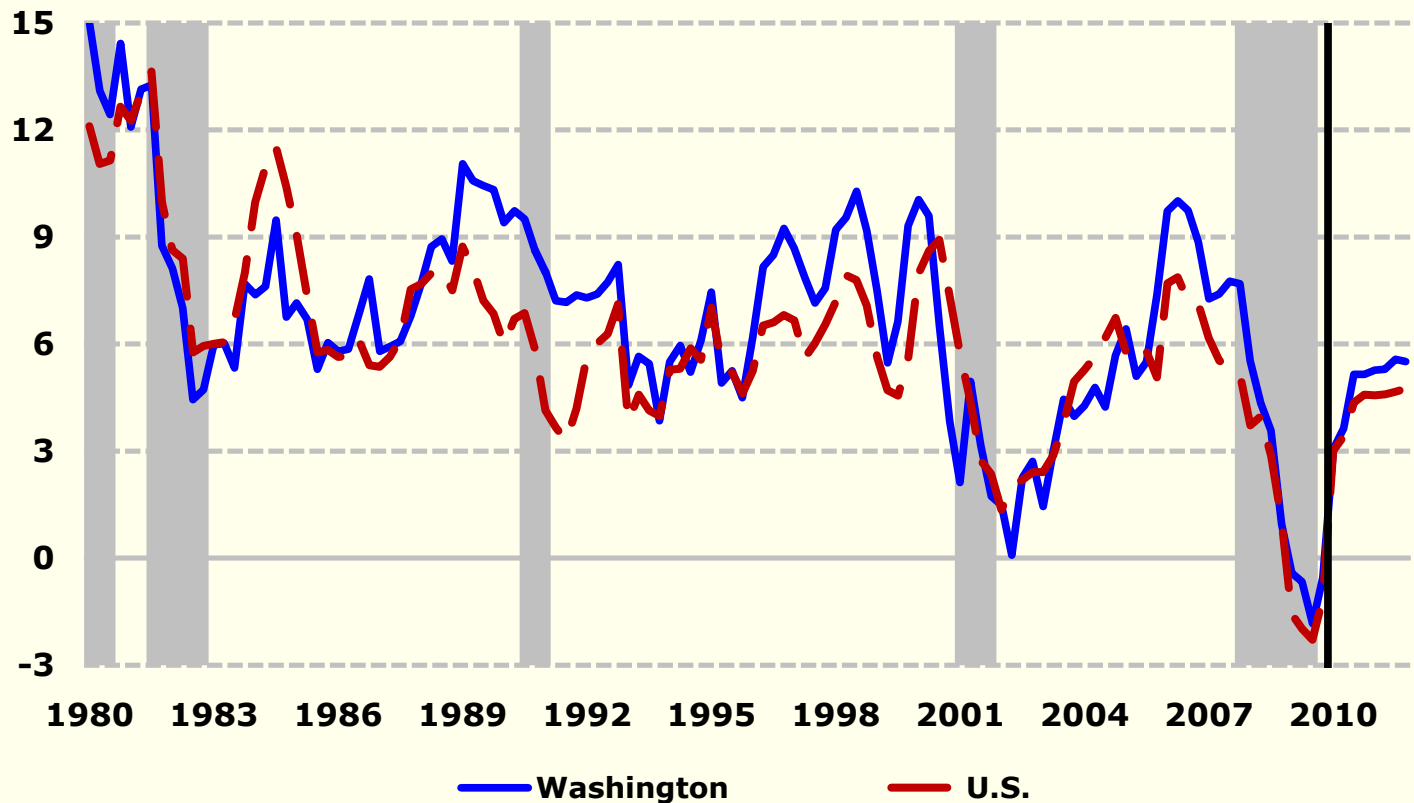


Source: ERFC November 2009 forecast; actual through February 2010



The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago

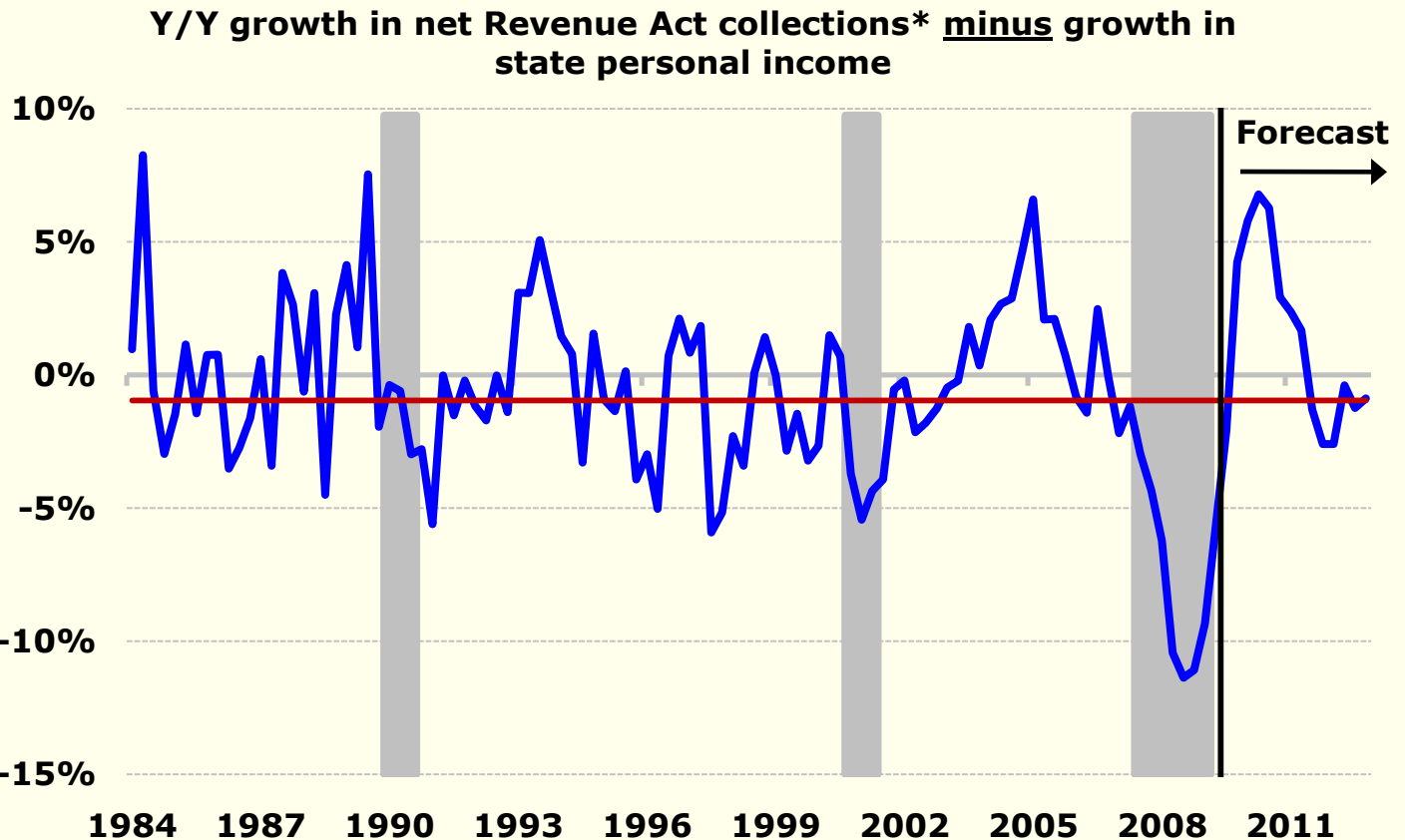


Source: ERFC February 2010 forecast; actual data through 2009Q4



Revenue growth relative to income is starting to turn around

The difference between the growth rate of Revenue Act collections and state personal income began to shrink in the second quarter of 2009.



* Adjusted for new legislation, current definition of Revenue Act
Source: DOR and ERFC; data through 2009Q4 estimated

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Forecast changes: General Fund State, 2009-2011 Biennium

**November
Forecast:**
\$28,843
million

USD millions	February '10 Forecast				
	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$61	(\$150)	(\$52)	\$27,245	(\$141)
All other agencies	\$1	\$0	\$22	\$1,479	\$23
Total GF-S	\$61	(\$150)	(\$30)	\$28,725	(\$118)

* Detail may not add to total due to rounding

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Initial Forecast: General Fund State, 2011-2013 Biennium

**USD
millions**

USD Millions

	Forecast
Dept. of Revenue	\$30,658
All other agencies	\$1,566
Total GF-S	\$32,224

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* Detail may not add to total due to rounding

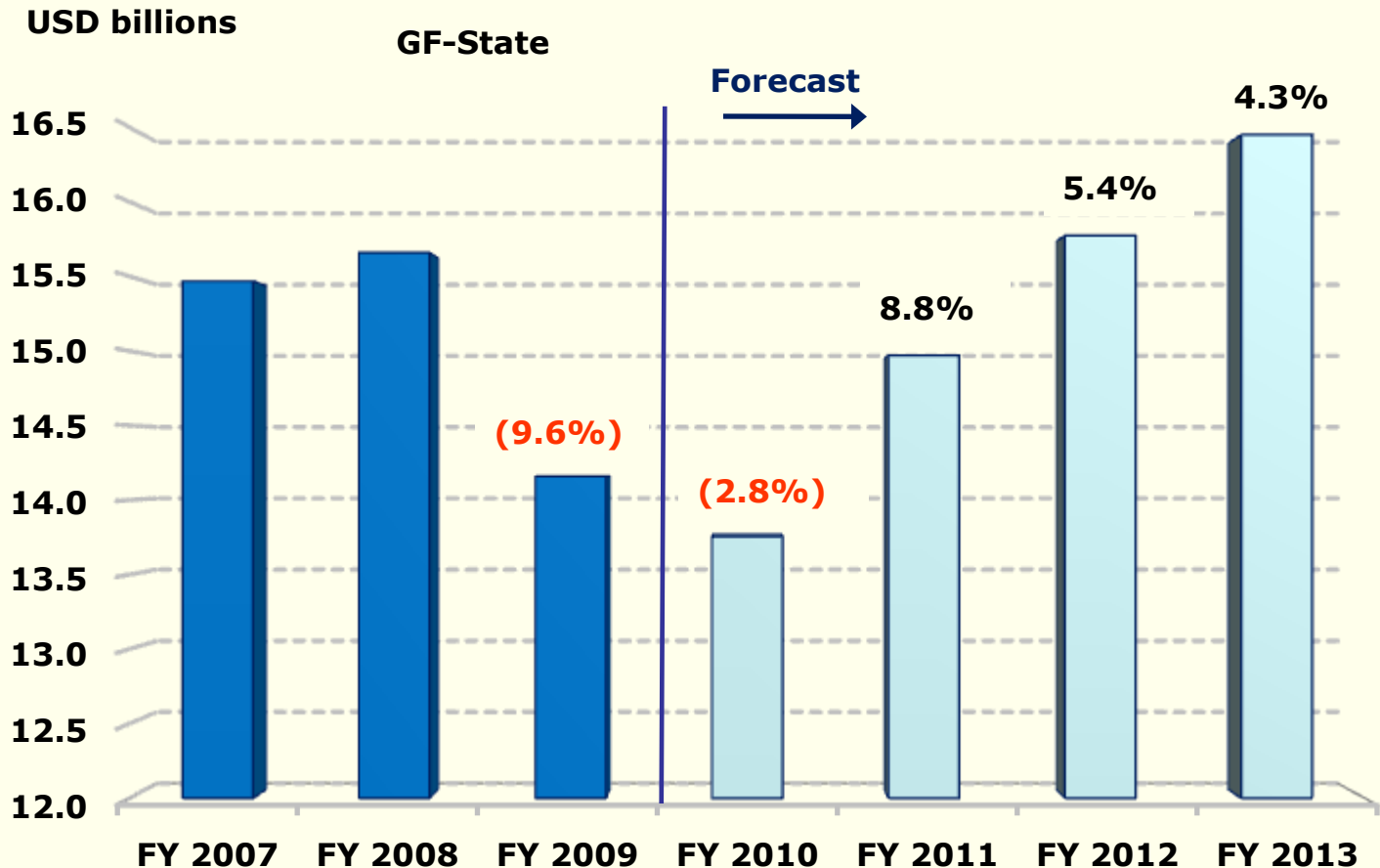


General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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Source: ERFC forecast, February 2010



Conclusion

Pluses

- Recovery in progress
- Imminent improvement in jobs
- Car sales are improving
- Large banks able to extend credit

Minuses

- Problems at community banks
- Weak consumer confidence
- Slow recovery in construction

- Revenues have come in close to our November forecast, and are bumping along the bottom
- We expect 12.2% revenue growth in the 11-13 biennium compared to the current one



Questions



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